MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BAC2634 – FINANCIAL ACCOUNTING AND REPORTING II

(All Sections/Groups)

23 OCTOBER 2019
9.00 a.m - 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

The following are the financial statements and extract of notes of Berland Bhd.:

Berland Bhd
Statement of Profit or Loss for the year ended 31 December 2018

	RM
Sales	560,000
Cost of sales	(220,000)
	340,000
Operating expenses	(145,000)
Other expenses	(44,480)
	150,520
Interest expense	(35,700)
Dividend income	6,600
Interest income	800
Profit before tax	122,220
Income tax	(4,200)
Net profit	118,020

Berland Bhd
Statement of Financial Position as at 31 December 2018

	RM	RM
Non-current assets	2018	2017
Property, plant and equipment	251,100	160,000
Intangible assets	9,000	11,000
Investments	41,000	29,000
	301,100	200,000
Current assets		
Inventories	4,000	3,200
Trade receivables	14,000	13,000
Investments	4,800	3,000
Interest receivable	400	240
Cash at bank	700	5,560
	23,900	25,000
Total assets	325,000	225,000
Share capital	206,000	146,700
Retained profits	83,000	53,600
Long term liabilities		
Finance lease liability	18,000	-
	307,000	200,300

Continued ...

Current liabilities		
Trade payables	5,600	7,700
Interest payables	10,400	12,000
Finance lease creditor	2,000	5,000
	325,000	225,000

Additional information:

i. Short term investments were all disposed of within 50 days of purchase. The company sold equipment with a book value of RM7,000 (cost RM8,000 less accumulated depreciation RM1,000) for RM4,000 cash.

ii. Detailed information of property, plant and equipment is as follows:

	Cost (RM)	Accumulated Depreciation (RM)
31 December 2017	210,000	50,000
31 December 2018	290,000	38,900

iii. During the year, Berland Bhd disposed a plant for RM30,000. The cost of the disposed plant was RM60,000 and its accumulated depreciation was RM24,000.

iv. A new equipment was acquired through finance lease of RM20,000.

v. Long term investments of carrying amount RM9,000 was disposed of at a profit.

vi. Other expenses comprise of:

	RM
Gain on disposal of long term investment	(1,500)
Loss on disposal of plant	6,000
Other cash expenses	39,980
	44,480

vii. Dividends paid was RM66,660.

Required:

Prepare the Statement of Cash Flows for Berland Bhd for the year ended 31 December 2018 in accordance with MFRS 107 *Statement of Cash Flows* (using indirect method)

(Total: 15 marks)

Continued ...

QUESTION 2

PART A

On 1 January 2018, DSP Bhd purchased a new machine for cash of RM1,500,000. The machine has an expected life of three years and a nil residual value. DSP received a 50% grant towards the cost of machine on the same date. DSP Bhd's accounting policy for capital-based grants is to treat them as deferred credits and release them to income over the life of the asset to which they relate.

On 31 December 2018, it is found that DSP can no longer fulfil the requirements of the government and hence DSP had to repay the grant in full on 31 December 2018.

Required:
Prepare the journal entries to record the grant, depreciation and the repayment of the grant.

(8 marks)

PART B

DSP Properties Bhd. has submitted a list of its properties in Malaysia to you so that you can advise them whether the properties should be accounted for within the scope of MFRS 140 *Investment Properties* or MFRS 116 *Property, Plant and Equipment.* The following is the list of properties held by DSP Properties Bhd. as at 1 January 2019:

(a) A seven-storey building in Kuala Lumpur and the whole building is leased out to its subsidiary Suria Bhd. for five years.

(b) A five-storey building in Johor Bahru which have been used in production and supply of goods.

(c) DSP Properties Bhd. owns a ten-storey building in Taiping and uses the building to operate a hotel. It provides cleaning, maintenance and security services which are considered significant services to the hotel guests.

(d) DSP Properties Bhd. owns a shopping mall in Melaka. 80% of the mall are sub-leased to the tenants, while another 15% is still actively search for a new tenant. The remaining part of the mall is used for an administrative work by DSP employees. DSP Properties Bhd. provides cleaning, maintenance and security services which are considered insignificant services for the mall.

Required:
Advise the company on the appropriate accounting treatment for its properties in accordance with the relevant MFRSs.

(7 marks)

Continued ...

PART C

a. Abu Bakar, a contractor, enter into a contract with Cellen, to construct a factory building. A contract modification arises when Cellen requests for an annexure office block to be built next to the factory. The price of this annexure is negotiated separately. How to account for the modification?

(3 marks)

b. In another contract, the same contractor, Abu Bakar designs and builds a house for a new house owner, Jessy. Abu Bakar is responsible for the overall management of the project and identifies various goods or services that are provided, including architectural design, site preparation, construction of the house, plumbing and electrical services and finished carpentry. How many performance obligations are in the contract?

(3 marks)

c. Husboom Ent. sells energy drinks to 24/7 convenience stores. Husboom Ent. also pays the store a fee to ensure that its products receive prominent placement on store shelves. The fee is negotiated as part of the contract for sale of the energy drinks. How should Husboom Ent. account for the slotting fees paid to the stores?

(3 marks)

d. Briefly state the 5-step model of MFRS 15 in recognising revenue.

(5 marks)

PART D

On 1 January 2018, Lilin Bhd borrowed RM400 million to finance the construction of a property, a qualifying asset, which was expected to take three years to build. The following are the details of the loan and the property

- Interest on the loan was fixed at 10% per annum.
- Construction work on this property was commenced on 1 January 2018.
- Funds used for expenditures on the construction of the property were RM200 million on 1 January 2018 and RM200 million on 1 July 2018.
- The unutilised funds were temporarily invested with a return of 6% per annum, determine the borrowing costs eligible for capitalisation for the year ended 31 December 2018 and consequently the cost of the property as at 31 December 2018.

Required:

Determine the carrying amount of the property as at 31 December 2018 and prepare the journal entry to account for the borrowing costs capitalised in 2018.

(6 marks)

(Total: 35 marks)

Continued ...

QUESTION 3

The financial statements of PQRS Company appear below:

PQRS COMPANY
Comparative Balance Sheet
as at 31 December 2018

	2015	2014
Assets	RM	RM
Cash	20,000	40,000
Short-term investments	20,000	60,000
Accounts receivable (net)	40,000	30,000
Inventory	60,000	70,000
Property, plant and equipment (net)	260,000	300,000
Total assets	400,000	500,000
Liabilities and stockholders' equity		
Accounts payable	20,000	30,000
Short-term notes payable	40,000	90,000
Bonds payable	80,000	160,000
Common stock	150,000	150,000
Retained earnings	110,000	70,000
Total liabilities and stockholders' equity	400,000	500,000

PQRS COMPANY
Income Statement
For the Year Ended 31 December 2018

		RM
Net sales		400,000
Cost of goods sold		250,000
Gross profit		150,000
Expenses		
Operating expenses	42,000	
Interest expense	18,000	
Total expenses		60,000
Income before income taxes		90,000
Income tax expense		27,000
Net income		63,000

Additional information:

a. Cash dividends of RM23,000 were declared and paid in 2018.
b. Weighted-average number of shares of common stock outstanding during 2018 were 30,000 shares.
c. Market value of common stock on 31 December 2018, was RM21 per share.

Continued ...

Instructions
Using the financial statements and additional information, compute and briefly explain the following ratios for PQRS Company for 2018. Show all computations.

i.	Current ratio	(1.5 marks)
ii.	Return on common stockholders' equity	(1.5 marks)
iii.	Price-earnings ratio	(1.5 marks)
iv.	Acid-test ratio	(1.5 marks)
v.	Accounts receivable turnover	(1.5 marks)
vi.	Times interest earned	(1.5 marks)
vii.	Profit margin	(1.5 marks)
viii.	Days in inventory	(1.5 marks)
ix.	Payout ratio	(1.5 marks)
x.	Return on assets	(1.5 marks)

(Total: 15 marks)

QUESTION 4

PART A

a) Mr. Ice is a new Finance Director for Khayla Berhad. During his first meeting with his Accountant, Sarah, he had mentioned about the following changes that he would like to make. Please indicate if the following is accordance with MFRS 108 – *Accounting Policies, Changes in Accounting Estimates and Errors* and how these changes would affect the current's year financial reporting.

i. Classifying commission earned as revenue in the statement of profit or loss, having previously classified it as other operating income.

(1 marks)

ii. Switching to purchase plant using finance leases from a previous policy of cash purchase.

(1 marks)

iii. Switching the value of a subsidiary's inventory in line with the group policy for inventory valuation, when the consolidated financial statements is prepared.

(1 marks)

Continued ...

b) Discuss the accounting treatment and disclosure for each of the following events and transactions:

i. In 2018, the entity voluntarily changed an accounting policy. The cumulative effect of the change in accounting policy is a decrease of RM100,000 in retained earnings at 1 January 2018, i.e., the beginning of the current reporting period. The entity presents two years of comparative information and has calculated that the effect of the change in accounting policy is RM25,000 less profit for each of the past four years.

(3 Marks)

ii. The facts are the same as above (i). However, since retrospective application requires significant estimates of amounts and to distinguish objectively information about those estimates is impossible; thus, unlike (i), it is impracticable for the entity to determine the individual period effects of the change in accounting policy on the prior periods presented.

(3 Marks)

iii. In 2018, after the entity's 2017 financial statements were approved for issue, the entity discovered that, as a result of a computational error, depreciation expense for 2017 was understated by RM100.

(3 Marks)

iv. An entity provides warranties at the time of sale to purchasers of its products. On 31 December 2018 an entity assessed its warranty obligation for products sold before 31 December 2018 at RM100,000. Immediately before the 31 December 2018 annual financial statements were approved for issue, the entity discovered a latent defect in one of its products (i.e., a defect that was not discoverable by reasonable or customary inspection). As a result of the discovery the entity revised its estimate of its warranty obligation at 31 December 2018 to RM150,000.

(3 Marks)

Continued ...

PART B

a) Kandang Farm Bhd is located at Sungai Buloh. When Kandang Farm Bhd started its farming business on 1 January 2017, Kandang Farm Bhd had purchased 10,000 cattle at a cost of RM10,000,000. At the end of year 2017, the estimated fair value of cattle in the market is RM10,100,000. The company estimates the associated costs to sell as following:

Total commissions	:RM50,000
Total transportation costs	:RM80,000

Kandang Farm Bhd financial year-end is 31 December.

i. Show the journal entries of the above transactions in the book of Kandang Farm Bhd.

(5 Marks)

ii. Refer to previous situation, briefly explain how this Government Grant should be treated and recorded in accordance with MFRS 141-Agriculture if Kandang Farm Bhd had received a conditional government grant related to above biological asset.

(3 Marks)

b) Specify the initial and subsequent measurement for a biological asset and agricultural produce as specified in MFRS 141.

(4 Marks)

PART C

"MFRS 6- *Exploration and Evaluation of Mineral Resources* are to be recognized at cost. This cost including any obligations for dismantling and restoration costs due to its activities"

a) Provide **THREE (3)** examples of exploration and evaluation costs.

(3 Marks)

b) If the exploration and evaluation activities have reached development phase, how these costs shall be reported and disclosed (provide the appropriate MFRS)

(2 Marks)

c) Exploration and evaluation assets are not depreciated. Justify.

(3 Marks)

(Total: 35 Marks)

End of Paper